

18 December, 2014

The Manager
Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Notice of Extraordinary General Meeting

In accordance with the Listing Rules, we attach copies of the following documents which are to be dispatched to shareholders of Orbital Corporation Limited today:

1. Notice of Extraordinary General Meeting;
2. Explanatory Notes on Items of Business; and
3. Sample Proxy Form

Yours faithfully



Ian Veitch ACA ACIS
Chief Financial Officer
& Company Secretary

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Orbital Corporation Limited ("**the Company**") will be held at the offices of the Company, 4 Whipple Street, Balcatta, Western Australia on Wednesday 21 January 2015 at 10:00am (WST) ("**Meeting**").

The Explanatory Notes provide additional information on matters to be considered at the Meeting. The Explanatory Notes and the Proxy Form form part of this Notice.

Terms and abbreviations used in this Notice are defined in Schedule 1.

AGENDA

1. Resolution 1 – Approval for the issue of Shares to Vendor

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, approval is given for the issue of up to 4,000,000 Shares to the Vendor on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by the Vendor and any of its associates.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

2. Resolution 2 – Approval for the issue of Convertible Notes

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, approval is given for the issue of up to 200 Convertible Notes on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 2 by a person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if Resolution 2 is passed, or an associate of any such person.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

3. Resolution 3 – Approval for the issue of Interest Shares

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, approval is given for the issue of Interest Shares on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 3 by a person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if Resolution 3 is passed, or an associate of any such person.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

4. Resolution 4 – Approval for the issue of Convertible Notes to Mr Terry Stinson

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, subject to the passing of Resolutions 2 and 3, pursuant to and in accordance with Listing Rule 10.11 and for all other purposes, approval is given for the issue of up to 1 Convertible Notes to Mr Terry Stinson (or his nominee) on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 4 by Mr Stinson and any of his associates.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

5. Resolution 5 – Approval for the issue of Convertible Notes to Mr John Welborn

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, subject to the passing of Resolutions 2 and 3, pursuant to and in accordance with Listing Rule 10.11 and for all other purposes, approval is given for the issue of up to 5 Convertible Notes to Mr John Welborn (or his nominee) on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 5 by Mr Welborn and any of his associates.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. Resolution 6 – Approval for the issue of Interest Shares to Mr Terry Stinson

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, subject to the passing of Resolutions 2 and 3, pursuant to and in accordance with Listing Rule 10.11 and for all other purposes, approval is given for the issue of Interest Shares to Mr Terry Stinson (or his nominee) on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 6 by Mr Stinson and any of his associates.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. Resolution 7 – Approval for the issue of Interest Shares to Mr John Welborn

To consider and, if thought fit, to pass as an ordinary resolution with or without amendment:

"That, subject to the passing of Resolutions 2 and 3, pursuant to and in accordance with Listing Rule 10.11 and for all other purposes, approval is given for the issue of Interest Shares to Mr John Welborn (or his nominee) on the terms and conditions in the Explanatory Notes."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 7 by Mr Welborn and any of his associates.

However, the Company will not disregard a vote if:

- (i) it is cast by such a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (ii) it is cast by the person Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

By order of the Board

I G VEITCH
Company Secretary
Perth, Western Australia

17 December 2014

IMPORTANT INFORMATION FOR SHAREHOLDERS

1. The Explanatory Notes form part of the Notice and should be read in conjunction with it.
2. If you cannot attend the Meeting you may appoint a proxy to attend and vote for you. A Proxy Form is included with the Notice for this purpose.
3. You may appoint no more than two proxies to attend and vote on your behalf. A proxy need not be a member of the Company. If you appoint two proxies, you may specify the proportion or number of your votes that each proxy is appointed to exercise. If you do not do so, each proxy may exercise half of the vote. On a vote conducted by a show of hands only one proxy shall be entitled to vote.
4. If you wish to direct a proxy on how to vote on any Resolution, you should place a mark (e.g. a cross) in the appropriate box on the Proxy Form. Your proxy may then only exercise your vote in the manner you have directed. If you do not direct your proxy how to vote, your proxy can vote any way it chooses. If you appoint the Chairman as your proxy and do not direct the Chairman on how to vote, the Chairman will vote in favour of all Resolutions.
5. To be effective, a properly completed Proxy Form and (where applicable) any power of attorney under which it is signed or a certified copy of that power of attorney must be received by the Company by no later than 10:00am (WST) on Monday, 19 January 2015, being not more than 48 hours before the time for commencement of the Meeting. Please send the Proxy Form to the Company's share registry, Link Market Services Limited at Locked Bag A14, Sydney South, NSW 1235. Shareholders may also fax the Proxy Form to the Company's share registry +61 2 9287 0309.
6. A body corporate may appoint an individual as its representative to attend and vote at the Meeting and exercise any other powers the body corporate can exercise at the Meeting. The appointment may be a standing one. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.
7. For the purpose of voting at the Meeting the Directors have determined that Shareholders are those persons who are the registered holders of Shares at 4:00pm (WST) on Monday, 19 January 2015. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

EXPLANATORY NOTES

1. Background

1.1 Share Sale Agreement

As detailed in the Company's announcement of 10 November 2014 (**Announcement**), the Company has entered into the Share Sale Agreement to acquire 50% of the issued share capital in REMSAFE (**Acquisition**).

Pursuant to the terms of the Share Sale Agreement, the consideration for the Acquisition, being \$5,000,000 may be satisfied, at the election of the Company, wholly in cash or in partly in cash and the issue of Shares.

If the Company elects to pay partly in cash and by issuing Shares to the Vendor, the Company will make a cash payment of \$4,000,000 and issue an amount of Shares equal to \$1,000,000 at an issue price of \$0.25 per Share (being 4,000,000 Shares) to the Vendor.

The Board has not yet determined whether it will satisfy the consideration for the Acquisition wholly in cash or in part cash and the issue of Shares.

The Share Sale Agreement is subject to a number of conditions being satisfied prior to completion. Such conditions include that the Company must raise appropriate capital or obtain finance to satisfy the consideration payable to the Vendor.

Subject to the completion of the Acquisition, the Company will also enter into a shareholders agreement with Mr Michael Lane, who is the holder of other 50% holding in the share capital of REMSAFE.

For further details in respect of the Acquisition refer to the Announcement.

1.2 REMSAFE

REMSAFE was established by Messrs Michael Lane and Nick Bertucci to develop and sell a high voltage electrical isolation product. The product provides a compelling solution to major mining companies who need to respond to growing industry pressure to improve productivity and reduce operating costs while also looking for innovation to provide a safer working environment. The business of REMSAFE will continue to trade as "REMSAFE" and will be incorporated into the Company's expanding portfolio of products.

The Board is of the opinion that REMSAFE fits within the Company's strategic plan and intends to utilise the Company's commercialisation experience to leverage growth opportunities for the REMSAFE business.

Refer to the Announcement for further details in respect to REMSAFE.

1.3 Convertible Notes

On 17 December 2014, the Company announced its intention to conduct a capital raising through the issue of Convertible Notes to a small number of Sophisticated Investors and/or Professional Investors to raise a minimum amount of \$5,000,000 and a maximum amount of \$10,000,000 (before costs) (**Convertible Note Offer**).

The Convertible Note Offer will not be underwritten. Azure Capital Limited is acting as lead manager for the Convertible Note Offer and will be issued no more than 2,000,000 Shares in lieu of a cash payment for its services. The actual number of Shares issued to Azure Capital Limited will be dependant upon the amounts subscribed to pursuant to the Convertible Note Offer. The Company intends to issue the Shares to Azure Capital Limited within its 15% placement capacity pursuant to Listing Rule 7.1 and accordingly does not need approval from Shareholders.

Funds raised from the Convertible Note Offer will be utilised by the Company to satisfy the consideration obligations pursuant to the terms of the Share Sale Agreement. Any funds raised in excess will be utilised by the Company as general working capital.

The terms of the Convertible Notes are detailed in Schedule 2. A summary of the key terms is as follows:

Face Value: \$50,000 per Convertible Note.

Maturity Date: The date that is 24 months after the Issue Date.

Interest: 10% per annum payable quarterly to Holders, in cash or as Interest Shares, at the election of the Holders subject to applicable law and regulation. The number of Interest Shares to

EXPLANATORY NOTES

be issued to a Holder, so electing, will be equal to the amount of interest due divided by the Issue Price Formula.

Redemption: Redeemable by the Holders at the Maturity Date or on specified events of default. Early redemption provisions available for the Company to redeem at any time during the period commencing 6 months from the Issue date and ending on the Maturity Date.

Conversion: Convertible by the Holder into Shares at any time from the Issue Date on the basis of the following formula:

$$S = \frac{(FV - T)}{CP}$$

Where:

S = the number of Shares to be issued to the Holder;

T = the necessary amount required to be withheld for any tax;

FV = the relevant aggregate face value of the Notes to be converted into Shares and issued to the Holder; and

CP = \$0.40.

Security: First ranking security granted to the Trustee for the benefit of the Holders.

1.4 Implications of the Convertible Note Offer and the issue of Interest Shares

If Resolution 2 is passed by Shareholders, Holders may elect to convert the Convertible Notes at any time from the Issue Date up to the Maturity Date.

Assuming that:

- (a) all Notes are converted to Shares by all Holders; and
- (b) the maximum amount of \$10,000,000 is raised by the Convertible Note Offer,

the indicative capital structure of the Company will be as follows:

Shares on issue	Number / Amount
Total Shares currently on issue	48,927,334 ¹
Number of Shares to be issued to all Holders upon conversion of the Notes (excluding interest)	25,000,000
Total Shares on issue post issue of Shares in accordance with the terms of the Convertible Notes	73,927,334
Maximum dilution effect for existing Shareholders	33.8%

These numbers assume no additional Shares are issued by the Company and no other convertible securities are converted.

¹ This includes the number of Shares on issues as at the date of this Notice and the 4,000,000 Shares which may be issued to the Vendor.

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In the event that Holders elect to exercise their rights to convert the Convertible Notes, the exact dilution of shareholding of existing Shareholders will ultimately depend on:

- (a) whether Holders exercise their right to convert the Convertible Notes;
- (b) the extent to which Holders exercise their right to convert the Convertible Notes;
- (c) the extent to which the Holders have elected to be issued Interest Shares in satisfaction of interest due and payable by the Company to the Holders; and
- (d) the number of Shares on issue at the time the Convertible Notes are converted into Shares.

The impact of the issue of Interest Shares on the dilution effect to existing Shareholders is more difficult to demonstrate as the issue price of the Interest Shares is to be calculated in the future, based on the Issue Price Formula.

The trading history of the Shares on ASX in the 6 months before the date of the Notice is set out below:

	Price \$	Date
Highest	\$0.48	20 November 2014
Lowest	\$0.14	16 June 2014
Last	\$0.32	12 December 2014

Accordingly, the table below has been included to show the dilution effect which would occur based on:

- (a) Scenario 1 – issue price of \$0.43, being 90% of the highest trading price of the Company in the 6 months prior to the date of the Notice.
- (b) Scenario 2 – issue price of \$0.13, being 90% of the lowest trading price of the Company in the 6 months prior to the date of the Notice.
- (c) Scenario 3 – issue price of \$0.29, being 90% of the trading price of the Company on 12 December 2014.

The table assumes that:

- (a) No Convertible Notes are redeemed early or converted into Shares in accordance with the terms of the Convertible Notes;
- (b) The maximum amount of \$10,000,000 is raised by the Convertible Note Offer;
- (c) Holders elect to have all interest satisfied by the issue of Interest Shares; and
- (d) The election to be issued Interest Shares does not breach the terms of the Convertible Notes, the Corporations Act, the Listing Rules or any other applicable laws,

the indicative capital structure of the Company will be as follows:

EXPLANATORY NOTES

	Scenario 1	Scenario 2	Scenario 3
Total number of Shares on issue	48,927,334 ²	48,927,334 ³	48,927,334 ⁴
Total number of Interest Shares to be issued	4,651,162	15,384,615	6,896,551
Total number of Shares on issue following the issue of Interest Shares	53,578,496	64,311,949	55,823,885
Maximum dilution effect for existing Shareholders	8.68%	23.92%	12.35%

As the number of Interest Shares to be issued cannot be conclusively calculated at this time given the variables described above, the table has been included to give an indication of the dilution effect that issue of the Interest Shares may have on existing Shareholders based on the set of assumptions. In practice, these assumptions and the variables described above are likely to change, so the table above should be treated as an example only.

1.5 Waivers from Listing Rules

The Company obtained waiver from the requirements of the following Listing Rules 7.3.2, 7.3.3, 10.13.3 and 10.13.5. These waivers were obtained from technical requirements regarding the timing of the issuance of the Interest Shares and the formula for calculating the issue price of the Interest Shares.

2. RESOLUTION 1 – Approval for the issue of Shares to the Vendor

Resolution 1 seeks Shareholder approval for the issue of up to 4,000,000 Shares to the Vendor pursuant to the terms of the Share Sale Agreement.

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 1 will be to allow the Directors to issue Shares to the Vendor during the period of 3 months after the Meeting, without using the Company's 15% annual placement capacity.

Resolution 1 is an ordinary resolution.

2.1 Listing Rule 7.3

Specific information required by Listing Rule 7.3 is provided as follows:

- a) The maximum number of Shares to be issued is 4,000,000.
- b) The Shares will be issued no later than 3 months after the date of the Meeting.
- c) The Shares will be issued at a fixed price of \$0.25 per Share.
- d) The Shares will be issued to the Vendor.
- e) The Shares will be fully paid ordinary shares and will rank equally in all respects with the Company's existing shares on issue.
- f) The Shares will be issued to satisfy the Company's obligations pursuant to and in accordance with the terms of the Share Sale Agreement.

² See note 1.

³ See note 1.

⁴ See note 1.

EXPLANATORY NOTES

- g) The issue of the Shares will occur on or about the date that is seven days following the date of the Meeting.
- h) A voting exclusion statement for this Resolution is included in the Notice.

2.2 Chairman's intentions

The Chairman intends to exercise all available proxies in favour of Resolution 1.

If the Chairman is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolution 1, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation to vote the proxy in accordance with the Chairman's intention.

2.3 Directors' recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

3. RESOLUTION 2 – Approval for the issue of Convertible Notes

Resolution 2 seeks Shareholder approval for the issue of up to 200 Convertible Notes to raise a minimum of \$5,000,000 and a maximum amount of \$10,000,000 (before costs).

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The Convertible Notes are Equity Securities for the purposes of the Listing Rule 7.1.

The effect of Resolution 2 will be to allow the Directors to issue the Convertible Notes pursuant to the terms of the Convertible Notes during the period of 3 months after the Meeting without using the Company's 15% annual placement capacity.

Resolution 2 is an ordinary resolution.

3.1 Listing Rule 7.3

Specific information required by Listing Rule 7.3 is provided as follows:

- a) The maximum number of Convertible Notes to be issued is 200.
- b) The Convertible Notes will be issued no later than 3 months after the date of the Meeting.
- c) The Convertible Notes will be issued with a face value of \$50,000 each.
- d) The Convertible Notes will be issued solely to Sophisticated Investors and/or Professional Investors.
- e) The terms and conditions of the Convertible Notes are provided in Schedule 2 and a summary of the key terms are provided in Section 1.3.
- f) The Company intends to use the funds raised from the issue of the Convertible Notes to satisfy its obligations pursuant to the terms of the Share Sale Agreement and any excess capital raised will be utilised by the Company as general working capital.
- g) A voting exclusion statement for this Resolution is included in the Notice.

3.2 Chairman's intentions

The Chairman intends to exercise all available proxies in favour of Resolution 2.

If the Chairman is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolution 2, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation to vote the proxy in accordance with the Chairman's intention.

3.3 Directors' recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 2.

EXPLANATORY NOTES

4. RESOLUTION 3 – Approval for the issue of Interest Shares

Interest on the Convertible Notes will be payable at a rate of 10% per annum payable quarterly to Holders, in cash or Shares, at the election of the Holders subject to compliance with the Listing Rules, the Corporations Act, the Constitution and any other applicable laws. If a Holder elects to be issued Interest Shares in satisfaction of interest due to the Holder, the Company will issue to a Holder the number of Interest Shares equal in value to the interest due divided by the Issue Price Formula. The Interest Shares may be issued at any time up to and including the Maturity Date to satisfy an interest payment that becomes due and payable by the Company to the Holders.

Pursuant to the terms of the Convertible Notes, if the issuance of the Interest Shares would breach the Listing Rules, the Corporations Act, the Constitution and any other applicable laws, the Company must satisfy the particular interest payment in cash. Refer to Schedule 2 for further details in this regard.

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 3 will be to allow the Directors to issue the Interest Shares on or before the Maturity Date (as permitted by a waiver obtained by the Company from ASX), without using the Company's 15% annual placement capacity.

Resolution 3 is an ordinary resolution.

4.1 Listing Rule 7.3

Specific information required by Listing Rule 7.3 is provided as follows:

- a) The number of Interest Shares to be issued will equal in value to the interest due divided by the Issue Price Formula.
- b) The Interest Shares will be issued on or before 7 days following the Maturity Date (as permitted by a waiver obtained by the Company from ASX to Listing Rule 7.3.2).
- c) The issue price of the Interest Shares will be calculated in accordance with the Issue Price Formula (as permitted by a waiver obtained by the Company from ASX to Listing Rule 7.3.3).
- d) The Interest Shares will be issued to Holders who elect to have interest on their Convertible Notes paid in Shares.
- e) The Interest Shares be fully paid ordinary shares and will rank equally in all respects with the Company's existing Shares on issue.
- f) The Interest Shares will be issued to satisfy the Company's obligations to pay interest on the Convertible Notes to those Holders who elect to have interest on their Convertible Notes paid in Interest Shares rather than in cash.
- g) A voting exclusion statement for this resolution is included in the Notice.

4.2 Chairman's intentions

The Chairman intends to exercise all available proxies in favour of Resolution 3.

If the Chairman is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolution 3, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation to vote the proxy in accordance with the Chairman's intention.

4.3 Directors' recommendation

The Directors recommend that Shareholders vote in favour of Resolution 3.

EXPLANATORY NOTES

5. RESOLUTIONS 4 and 5 – Approval for the issue of Convertible Notes to Messrs Stinson and Welborn

In accordance with Listing Rule 10.11, the Company must not issue or agree to issue Equity Securities to a related party unless it first obtains Shareholder approval. Messrs Stinson and Welborn are related parties of the Company as they are Directors.

Subject to the passing of Resolutions 4 and 5, Messrs Stinson and Welborn will be issued up to **1 and 5** Convertible Notes **respectively** pursuant to the Convertible Note Offer. Resolutions 4 and 5 are ordinary resolutions.

5.1 Section 208 of the Corporations Act

In accordance with section 208 of the Corporations Act, to give a financial benefit to a related party the Company must obtain Shareholder approval, unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

Messrs Stinson and Welborn are related parties for the purposes of section 208 of the Corporations Act as they are Directors.

The Directors, other than Messrs Stinson and Welborn, have determined that Shareholder approval pursuant to section 208 of the Corporations Act is not required to issue Convertible Notes to Messrs Stinson and Welborn as the exception in section 210 of the Corporations Act applies.

The Convertible Notes will be issued to Messrs Stinson and Welborn on the same terms as non-related party participates in the Convertible Note Offer and as such the giving of the financial benefit to Messrs Stinson and Welborn will be on arm's length terms.

5.2 Listing Rule 10.13

Specific information required by Listing Rule 10.13 is provided as follows:

- (a) The Convertible Notes will be issued to Messrs Stinson (or his nominee) and/or Welborn (or his nominee).
- (b) The Company will issue a maximum number of 3 Convertible Notes each to Messrs Stinson and Welborn.
- (c) The Convertible Notes will be issued no later than 1 month following the date of the Meeting.
- (d) The terms and conditions of the Convertible Notes are provided in in Schedule 2 and a summary of the key terms are provided in Section 1.3.
- (e) The Convertible Notes will each have a face value of \$50,000.
- (f) A voting exclusion statement for this Resolution is included in the Notice.
- (g) The Company intends to use the funds raised from the issue of the Convertible Notes to satisfy its obligations pursuant to the terms of the Share Sale Agreement and any excess capital raised will be utilised by the Company as general working capital.

5.3 Chairman's intentions

The Chairman intends to exercise all available proxies in favour of Resolutions 4 and 5.

If the Chairman is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolutions 4 and/or 5, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation to vote the proxy in accordance with the Chairman's intention.

5.4 Directors' recommendation

The Directors (excluding Messrs Stinson and Welborn) recommend that Shareholders vote in favour of Resolutions 4 and 5.

EXPLANATORY NOTES

6. RESOLUTION 6 and 7 - Approval for the issue of Interest Shares to Messrs Stinson and Welborn

In accordance with Listing Rule 10.11, the Company must not issue or agree to issue Equity Securities to a Director unless it first obtains Shareholder approval.

On the basis that Messrs Stinson and/or Welborn participate in the Convertible Note Offer, pursuant to the terms of the Convertible Notes and subject to the compliance with the Listing Rules, the Corporations Act, the Constitution and any other applicable law, they may each elect to be issued Interest Shares equal in value to the interest due divided by the Issue Price Formula. Interest is paid quarterly and Holders may elect to be issued Interest Shares at any time up to and including the Maturity Date to satisfy an interest payment owing to the Holders.

Pursuant to the terms of the Convertible Notes, if the issuance of the Interest Shares to either Messrs Stinson or Welborn would breach the Listing Rules, the Corporations Act, the Constitution or any other applicable laws, the Company must satisfy the particular interest payment in cash. Refer to Schedule 2 for further details in this regard.

Resolutions 6 and 7 are ordinary resolutions.

6.1 Section 208 of the Corporations Act

With respect to section 208 of the Corporations Act please refer to Section 5.1 above.

6.2 Listing Rule 10.13

Specific information required by Listing Rule 10.13 is provided as follows:

- a) The Interest will be issued to the Messrs Stinson and/or Welborn and/or their respective nominees.
- b) The number of Interest Shares to be issued the Messrs Stinson and Welborn will be equal in value to the interest due divided by the Issue Price Formula.
- c) The Interest Shares will be issued on or before 7 days following the Maturity Date (as permitted by a waiver obtained by the Company from ASX in respect of Listing Rule 10.13.3).
- d) The Interest Shares be fully paid ordinary shares and will rank equally in all respects with the Company's existing Shares on issue.
- e) The issue price of the Interest Shares will be calculated in accordance with the Issue Price Formula (as permitted by a waiver obtained by the Company from ASX to Listing Rule 10.13.5).
- f) A voting exclusion statement for this resolution is included in the Notice.
- g) The Interest Shares may be issued to Messrs Stinson and Welborn to satisfy the Company obligations to pay interest on the Convertible Notes to Messrs Stinson and/or Welborn, should they elect to have interest on their Convertible Notes paid in Interest Shares rather than in cash.

6.3 Chairman's intentions

The Chairman intends to exercise all available proxies in favour of Resolutions 6 and 7.

If the Chairman is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolutions 6 and/or 7, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation to vote the proxy in accordance with the Chairman's intention.

6.4 Directors' recommendation

The Directors (excluding Messrs Stinson and Welborn) recommends that Shareholders vote in favour of Resolutions 6 and 7.

EXPLANATORY NOTES

SCHEDULE 1 – DEFINITIONS

\$ means Australian dollar.

Acquisition has the meaning given in Section 1.1.

Announcement has the meaning given in Section 1.1.

ASX means the Australian Securities Exchange.

Board means the board of Directors.

Chairman means the person appointed to chair the Meeting.

Company means Orbital Corporation Limited ABN 32 009 344 058.

Constitution means the constitution of the Company.

Convertible Note Offer has the meaning given in Section 1.3.

Convertible Note means a secured debt obligation to be issued by the Company which is constituted by, and owing under, the Trust Deed, the details of which are recorded in the Register.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Equity Securities has the meaning given in the Listing Rules.

Explanatory Notes means these explanatory notes which form part of the Notice.

Holder means a person who is entered into the Register as a holder of a Convertible Note.

Issue Date means the date of issue of the Convertible Notes as shown on the original Convertible Note Certificate issued in respect of such Convertible Notes or such other date as may be agreed between the Company and the Noteholder.

Issue Price Formula means an amount equal to 90% of the Company's volume weighted average price of Shares on the ASX over the 30 trading days immediately preceding the interest payment date.

Interest Shares means Shares issued to Holders who have elected to have interest on their Convertible Notes paid in Shares.

Listing Rules means the listing rules of ASX.

Maturity Date means the date that is 24 months from the Issue Date.

Meeting has the meaning given in the introductory paragraph of the Notice.

Notice means the notice of meeting which comprises of the Notice, Explanatory Notes and the Proxy Form.

Professional Investor has the meaning given in section 708(11) of the Corporations Act.

Proxy Form means the proxy form which forms part of the Notice.

Register means the register of Holders established by the Trustee.

REMSAFE means REMSAFE Pty Ltd (ACN 084 258 293).

Resolution means a resolution contained in the Notice.

Schedule means a schedule to these Explanatory Notes.

Section means a section of these Explanatory Notes.

Share means an ordinary fully paid up share in the Company.

Shareholder means a holder of Shares.

Share Sale Agreement means the share sale agreement between the Company, the Vendor, Nick Bertucci, Michael Charles Lane, Rodna Ann Lane as trustee for the Lane Trust, REMSAFE and ICM Group WA Pty Ltd dated 10 November 2014.

Sophisticated Investor has the meaning given in section 708(8) of the Corporations Act.

Trust Deed means the trust deed entered into by the Trustee and the Company in respect of the Convertible Notes.

Trustee means Theta Asset Management Limited ABN 37 071 807 684.

Trading Days means any day of the year, other than a Saturday, Sunday or any day that is a public holiday in Perth, Western Australia.

Vendor means Zenexa Nominees Pty Ltd (ACN 601 438 493) as trustee for the ICM Electrics Trust.

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SCHEDULE 2 – TERMS OF THE CONVERTIBLE NOTES

1. Interpretation and definitions

Unless the context otherwise requires:

\$ means Australian Dollars.

ASIC means the Australian Securities and Investment Commission.

ASX means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.

Business Day means a day on which all banks are open for business in Perth, Western Australia.

Cleansing Notice has the meaning given in clause 3.1.

Cleansing Prospectus has the meaning given in clause 3.1.

Constitution means the constitution of the Issuer.

Controller has the same meaning as in the Corporations Act.

Conversion Date means the date on which the Note is converted into Shares, as nominated by the Holder and subject to the Terms.

Conversion Notice means the notice substantially in the form prescribed by the Trust Deed.

Conversion Option has the meaning given in clause 5.1(a).

Conversion Rate has the meaning given in clause 5.2.

Corporations Act means the *Corporations Act 2001* (Cth).

Early Redemption Date has the meaning given in clause 4.5(a).

Early Redemption Notice means the notice which may be given by the Issuer pursuant clause 4.5(b).

Early Redemption Interest Rate means an initial interest rate of 6% during the month which is 18 months prior to the Maturity Date with the interest rate reducing in accordance with the table below:

Months to Maturity Date	18-12	11	10	9	8	7	6	5	4	3	2	1
Early Redemption Interest Rate	6%	5.5%	5%	4.5%	4%	3.5%	3%	2.5%	2%	1.5%	1%	0.5%

Event of Default an event or circumstance described in clause 8.1.

Face Value means the face value of a Note being \$50,000.

General Security Deed means the security deed entered into between the Issuer and the Trustee in respect of the Notes.

Holder means a person who is entered into the Register as the holder of a Note.

Insolvency Event means, in respect of any person (or, in respect of the Trustee, in its personal capacity and not as trustee of any trust):

- (a) an administrator being appointed to the person;

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- (b)
 - (i) the person resolving to appoint a Controller or analogous person to the person or any of the person's property;
 - (ii) an application being made to a court for an order to appoint a Controller, provisional liquidator, trustee for creditors or in bankruptcy or analogous person to the person or any of the person's property and not being withdrawn, stayed or dismissed within 30 days; or
 - (iii) an appointment of the kind referred to in subparagraph (ii) being made (whether or not following a resolution or application);
 - (c) the holder of a Security Interest or any agent on its behalf, appointing a Controller or taking possession of any of the person's property (including seizing the person's property within the meaning of section 123 of the PPSA);
 - (d) an order being made, or the person passing a resolution, for its winding up;
 - (e) the person:
 - (i) suspending payment of its debts, ceasing (or threatening to cease) to carry on all or a material part of its business, stating that it is unable to pay its debts or being or becoming otherwise insolvent; or
 - (ii) being unable to pay its debts or otherwise insolvent;
- unless this takes place as part of a solvent reconstruction, amalgamation, merger or consolidation; or
- (f) anything analogous to any of the events described in paragraphs (a) – (e) above happens under the laws of any other applicable jurisdiction.

Interest Payment means the interest payable on a Note on the Interest Payment Date, as calculated in accordance with clause 3.

Interest Payment Date means, subject to clause 3.1(k), for an Interest Period, the date which is 7 days after the Interest Record Date and if that date is not a Business Day, then adjusted, if necessary in accordance with the Modified Following Business Day Convention.

Interest Period means the period determined in accordance with clauses 3.1(m) and 3.1(n).

Interest Rate has the meaning given in clause 2.1.

Interest Record Date means the last day of an Interest Period, adjusted if necessary in accordance with the Modified Following Business Day Convention.

Interest Shares has the meaning given in clause 3.1.

Issue Date means the date of issue of the Convertible Notes as shown on the original Convertible Note Certificate issued in respect of such Convertible Notes or such other date as may be agreed between the Company and the Noteholder.

Issuer means Orbital Corporation Limited.

Listing Rules means the official listing rules of ASX.

Maturity Date means the date that is 24 months after the Issue Date.

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Modified Following Business Day Convention means that the date is postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day

Note means a debt obligation issued, or to be issued, by the Issuer which is constituted by, and owing under, the Trust Deed, the details of which are recorded in the Register.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Priority Deed means the priority deed entered into between the Issuer, the Trustee and the Western Australia Minister for Commerce.

Redemption Amount means the amount determined in accordance with clause 4.2.

Redemption Date has the meaning given in clause 4.1.

Redemption Notice means the notice which may be given by the Trustee pursuant to an exercise of its rights under clause 8.3.

Register means the register of Holders established and maintained in accordance with the Trust Deed and, where appropriate, includes:

- (a) a sub-register maintained by or for the Issuer under the Corporations Act or the Listing Rules; and
- (b) any branch register.

Security Interest means:

- (a) a PPS Security Interest;
- (b) any other mortgage, pledge, lien or charge;
- (c) any other interest or arrangement of any kind that in substance secures the payment of money or the performance of an obligation, or that gives a creditor priority over unsecured creditors in relation to any property; or
- (d) any retention of title other than in the ordinary course of day-to-day trading and a deposit of money by way of security.

Share means a fully paid ordinary share in the capital of the Issuer.

Transaction Documents means

- (a) the Trust Deed;
- (b) the General Security Deed;
- (c) the Priority Deed;
- (d) any document or agreement entered into or given under (a), (b) or (c) above.

Trust Deed means the trust deed entered into by the Trustee and the Issuer in respect of the Notes.

2. The Note issue

2.1 Terms

Each Note will:

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- (a) have a Face Value of \$50,000 on the Issue Date, subject to adjustment in accordance with these Terms;
- (b) bear interest at a rate of 10.00% per annum ("**Interest Rate**");
- (c) subject to clauses 5.6, 5.7 or 5.8 of these Terms, be convertible into Shares at the Conversion Rate; and
- (d) where the Notes have not been converted in accordance with clause 5 of these Terms, be redeemed in accordance with clause 4 of these Terms;
- (e) rank equally without preference or priority amongst Holders.

2.2 Security Interest

All Notes issued by the Issuer are secured by the security granted by the Issuer to the Trustee under the General Security Deed. The Trustee holds the rights under the General Security Deed on trust for the benefit of the Holders in accordance with the terms of the Transaction Documents.

2.3 Withholding Tax

- (a) All payments or credits to, or to the account of Holders (including payment of, and credits in respect of interest) will be made net of any tax in respect thereof required by law to be withheld, deducted or paid by the Issuer except to the extent that the Issuer is satisfied that the Holder is exempt from any such tax or is a person in respect of whom any such withholding, deduction or payment is not required to be made. Any Holder claiming any such exemption or to be such a person will provide the Issuer with such evidence as the Issuer may from time to time require to satisfy itself as to the validity of such claim.
- (b) The Issuer may make any deduction or withholding from any amount payable to a Holder in respect of Notes for or on account of withholding or other tax required by law to be deducted or withheld, and, where any such deduction or withholding has been made and the amount thereof accounted for by the Issuer to the Commissioner of Taxation or other appropriate taxing authority and the balance of the amount payable has been paid to the Holder concerned, the full amount payable to such Holder will be deemed to have been duly paid and satisfied by the Issuer.

2.4 Entry in Register

The Trustee must ensure that each Holder's details are entered in a register of Holders as required pursuant to the Corporations Act.

2.5 Trust Deed and Trustee

The Holder acknowledges and agrees that:

- (a) Holders are not entitled to instruct the Trustee to do or refrain from doing any act which would be contrary to the terms of the Priority Deed or the General Security Deed; and
- (b) Holders are entitled to the benefit of, are bound by and are deemed to have notice of the Trust Deed, the General Security Deed, the Priority Deed and any document to which the Trustee becomes a party as the trustee of the Holders.

2.6 Holders to provide certain information

If requested by the Issuer, each Holder agrees, and it is a condition of the issue of the Notes, to provide certain information required by it or the Trustee in order to comply with any applicable law, including the United States *Foreign Account Tax Compliance Act* (**FATCA**).

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3. Interest

3.1 Interest Rate and Interest Periods

- (a) Subject to clause 2.2 of these Terms, interest will be payable on the Face Value of each Note at the Interest Rate.
- (b) Subject to compliance with this clause of these Terms, the Listing Rules, the Corporations Act, the Constitution and any other applicable laws, interest will be payable in either cash or Shares at the election of the Holder.
- (c) Interest will accrue daily on the Face Value of each Note over each Interest Period from (and including) the first day of the Interest Period to (and including) the Interest Record Date for that Interest Period. Subject to clauses 3.2 and 4.2 of these Terms, the Issuer must pay the interest that accrues on a Note over an Interest Period on the Interest Payment Date at the end of that Interest Period.
- (d) If the Holder elects, subject to this clause of these Terms, to receive Shares as satisfaction of an Interest Payment it shall give notice of this election to the Issuer in writing at least 10 Business Days prior to the relevant Interest Payment Date.
- (e) If no election is made by the Holder in respect of an Interest Period, the Interest Payment will be satisfied in cash only.
- (f) Subject to paragraph (b) above, the Holder shall be permitted to elect to have interest payable in Shares (**Interest Shares**) in whole (and not in part) in respect of an Interest Period only if the issue of such Interest Shares:
 - (i) is permitted by the Listing Rules or any waiver or dispensation from the Listing Rules granted by ASX to the Issuer; and
 - (ii) will not result in any breach of the Corporations Act, including without limitation to section 606 of the Corporations Act, or any other applicable laws.
- (g) If an election is made by the Holder to receive Interest Shares in satisfaction of an Interest Payment and the Issuer has reasonable grounds to believe that the issue of the Interest Shares will either:
 - (i) will result in any breach of the Corporations Act, including without limitation to section 606 of the Corporations Act, or any other applicable laws; or
 - (ii) contravene any provision of the Listing Rules or any waiver or dispensation granted by ASX to the Issuer in accordance with the Listing Rules,the Issuer may, at the Issuer's sole discretion, satisfy the Interest Payment in cash.
- (h) The Holder must provide the Issuer with reasonable information required by the Issuer to determine whether there may be a breach of section 606 of the Corporations Act, the Listing Rules or any other applicable laws. If information is not provided by the Holder to the Issuer to the satisfaction of the Issuer within 3 Business Days of such request, the Issuer may at its sole discretion satisfy the Interest Payment in cash only.
- (i) If the Holder elects to receive Interest Shares for an Interest Period and the Issuer considers that such issue will:
 - (i) contravene any provision of the Listing Rules or any waiver or dispensation granted by ASX to the Issuer in accordance with the Listing Rules; or

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- (ii) result in any breach of the Corporations Act, including without limitation to section 606 of the Corporations Act, or any other applicable laws,

the Issuer at its own discretion and expense may, but shall have no obligation to, convene a general meeting of shareholders to seek approval for the issue of the Interest Shares in accordance with the Corporations Act, Listing Rules and any other applicable laws.

- (j) If the Issuer elects not to convene such meeting of shareholders or at any such meeting, approval is not granted by shareholders of the Issuer, the Issuer shall satisfy the Interest Payment in cash.
- (k) If the Issuer determines to convene a general meeting of the shareholders to seek approval of the issue of the Interest Shares to satisfy the Interest Payment:
 - (i) the applicable Interest Payment Date shall be deferred to a date being 5 Business Days following the earlier of:
 - (A) the postponement of such shareholder meeting; and
 - (B) the date of the meeting or, if such meeting is adjourned, the date of such adjourned meeting (however, the commencement of the following Interest Period shall not be impacted by any such amendment to the prior Interest Payment Date);
 - (ii) the Holder must provide reasonable assistance to enable the Issuer to provide all necessary and relevant information to the shareholders in the notice of meeting documentation.
- (l) If the Holder elects, subject to this clause of these Terms, to receive Interest Shares as satisfaction of an Interest Payment and the Issuer has obtained all and any necessary shareholder approvals, the Issuer shall:
 - (i) issue to the Holder by no later than the Interest Payment Date the number of Interest Shares equal in value to the interest due based on 90% of the volume weighted average price of Shares on the ASX over the 30 trading days immediately preceding the Interest Payment Date and in accordance with as follows:

$$S = \frac{(A - B)}{C}$$

Where:

S = the Interest Shares to be issued by the Issuer to the Holder

A= the Interest Payment due to the Holder on the Interest Payment Date

B= any withholding tax required in accordance with clause 2.3

C= 90% of the volume weighted average price of Shares on ASX over the 30 trading days immediately preceding the Interest Payment Date.

Where the number of Interest Shares to which a Holder will be entitled, when calculated in accordance with this clause of these Terms, is not a whole number, the number of Interest Shares to which a Holder will be entitled on conversion will be rounded down to the nearest whole number.

- (ii) enter the Holder into the register of members of the Issuer as the registered holder of the Interest Shares;

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- (iii) give a statement of holding to the Holder in respect of the Interest Shares within 5 Business Days of the date the Interest Shares are issued;
 - (iv) promptly prepare and lodge all documents required by the Listing Rules as necessary for the consummation of the issue of the Interest Shares and the quotation of the Interest Shares on the ASX;
 - (v) subject to sub-paragraph (vi) below, lodge with the ASX a notice in accordance with section 708A of the Corporations Act in relation to the issue of the Interest Shares (**Cleansing Notice**) as soon as practicable but no later than 5 Business Days after the issue of the Interest Shares;
 - (vi) if for any reason following the issue of the Interest Shares, the Cleansing Notice cannot be issued then without prejudice to any rights or remedies available to the Holder under the Trust Deed or otherwise, the Issuer must no later than 90 days after receipt of a request from the Holder, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Interest Shares does not require disclosure to investors (**Cleansing Prospectus**).
- (m) Each Interest Period for a Note:
- (i) is a 3 month period (as adjusted in accordance with clause 3.1(n)); and
 - (ii) each period beginning on 1 July, 1 October, 1 January, 1 April and ending on (and including) 30 September, 31 December, 31 March, 30 June respectively,
- however:
- (iii) the first Interest Period commences on (and includes) the Business Day immediately preceding the Issue Date; and
 - (iv) the final Interest Period ends on (but excludes) the Maturity Date or the Redemption Date.
- (n) If an Interest Period would otherwise end after the Maturity Date, it ends:
- (i) if the Maturity Date is a Business Day, on the Maturity Date; or
 - (ii) if the Maturity Date is not a Business Day, on the Business Day before the Maturity Date.

3.2 Interest in the event of conversion under clause 5

If a Holder elects to convert any Note in accordance with clause 5 of these Terms at any time after the Issue Date (other than on an Interest Payment Date) then, because interest is payable in arrears, on the next Interest Payment Date being a date following the date of conversion of the Notes the Issuer will pay to the Holder on the next Interest Payment Date an amount of interest calculated in accordance with the following formula:

$$R = \left(\frac{MP}{91} \times I \right)$$

Where:

R = the amount of interest to be paid by the Issuer;

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I = the total amount of interest that would have been payable to that Holder in respect of the Notes held by that Holder in arrears on the next Interest Payment Date following the date of conversion, had the Notes not been converted; and

MP = the number of days commencing on the day after the Interest Record Date which immediately preceded the date of conversion and ending on the date of conversion.

3.3 Interest and transfers of Notes

Transfers of Notes do not affect when interest is paid. On each Interest Payment Date the full amount of accrued interest shall be due to the person who is the Holder on the applicable Interest Record Date.

3.4 Day count convention

Any interest accruing on the Notes will accrue from day to day and is calculated on the actual number of days elapsed and a year of 364 days.

4. Redemption

4.1 Redemption

Subject to clause 5 of these Terms, a Note is required to be redeemed on the first to occur of the following:

- (a) if an Event of Default has occurred and continues and a Redemption Notice is given to the Issuer pursuant to clause 8.4 of these Terms; or
- (b) on the Maturity Date,

(the "**Redemption Date**").

4.2 Redemption Amount

On the Redemption Date, the Issuer will deliver to the Holder a cheque, draft or electronic transfer in favour of the Holder, for the applicable Face Value of the Note plus the amount of any accrued but unpaid interest calculated in accordance with the following formula:

$$R = \left(\frac{MP}{91} \times I \right)$$

Where:

R = the amount of interest to be added to the Face Value of the Note.

I = the total amount of interest that would have been payable to that Holder in respect of the Notes held by that Holder in arrears on the next Interest Payment Date immediately following the date of the Redemption Notice (had the Redemption Notice not been given); and

MP = the number of days commencing on the day after the Interest Record Date which immediately preceded the Redemption Date and ending on the Redemption Date.

4.3 Exclusion

The Holder will not be entitled to require redemption of any Notes held by it otherwise than pursuant to this clause 4 of these Terms.

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4.4 Holders' right to enforce

No Holder shall be entitled to proceed directly against the Issuer to enforce any right or remedy under or in respect of any Note unless the Trustee, having become bound to so proceed, fails to do so within a reasonable period and the failure is continuing, in which case any such Holder may itself institute proceedings against the Issuer for the relevant remedy to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so. Any such proceeding must be brought in the name of the Holder and not the Trustee.

4.5 Early redemption by Issuer

- (a) The Issuer is entitled to redeem some or all of the Notes at any time during the period commencing on the date which is 6 months after the Issue Date and ending on the Maturity Date ("**Early Redemption Date**").
- (b) The Issuer may only redeem a Note under clause 4.5(a) if the Issuer has given at least 20 Business Days written notice to the Trustee and Holder of the redemption and the proposed Early Redemption Date ("**Early Redemption Notice**").
- (c) During the period commencing on the day of receipt of the Early Redemption Notice by a Holder until the Early Redemption Date, a Holder can elect to convert their Notes in accordance with clause 5.

4.6 Early Redemption Amount

On the Early Redemption Date, the Issuer will deliver to the Holder a cheque, draft or electronic transfer in favour of the Holder, for:

- (a) the applicable Face Value of the Note;
- (b) the amount of any accrued but unpaid interest calculated in accordance with the following formula:

$$R = \left(\frac{MP}{91} \times I \right)$$

Where:

R = the amount of interest to be added to the Face Value of the Note.

I = the total amount of interest that would have been payable to that Holder in respect of the Notes held by that Holder in arrears on the next Interest Payment Date immediately following the date of the Early Redemption Notice (had the Early Redemption Notice not been given); and

MP = the number of days commencing on the day after the Interest Record Date which immediately preceded the Early Redemption Date and ending on the Early Redemption Date; and

- (c) the early redemption fee, being an amount calculated based on the Face Value of the Note multiplied by the Early Redemption Interest Rate.

5. Conversion

5.1 Conversion

- (a) Subject to compliance with this clause of these Terms, the Listing Rules, the Corporations Act, the Constitution and any other applicable laws, a Holder will be entitled to convert all or part of

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the Notes held by that Holder in accordance with this clause 5 of these Terms, by delivering a Conversion Notice to the Issuer ("**Conversion Option**").

- (b) A Holder may only exercise the Conversion Option:
 - (i) in respect of the whole or part (but if in part, in a minimum amount of the lesser of:
 - (A) the total amount of Notes held by such Holder; and
 - (B) \$250,000,of the total number of Notes held by that Holder; and
 - (ii) in respect of the whole of the Face Value of a Note held by that Holder and not in respect of a portion only of the Face Value of the Note.
- (c) Subject to paragraph (a) and (b) above, the Holder shall be permitted convert the Notes only if such conversion:
 - (i) will not result in any breach of the Corporations Act, including without limitation to section 606 of the Corporations Act, or any other applicable laws; and
 - (ii) is permitted by the Listing Rules or any waiver or dispensation from the Listing Rules granted by ASX to the Issuer in accordance with the Listing Rules.
- (d) If a Conversion Option is exercised and the Issuer has reasonable grounds to believe that the satisfaction of the Conversion Option will breach the Listing Rules, section 606 of the Corporations Act or any other applicable laws, at the Issuer's sole discretion, the Issuer may satisfy the Conversion Option in cash.
- (e) The Holder must provide the Issuer with reasonable information required by the Issuer to determine whether there may be a breach of the Listing Rules, section 606 of the Corporations Act or any other applicable laws. If information is not provided by the Holder to the Issuer to the satisfaction of the Issuer within 3 Business Days of such request, the Issuer may at its sole discretion satisfy the Conversion Option in cash only.
- (f) If the Holder exercises the Conversion Option and an issue of Shares in satisfaction of the Conversion Option will result in:
 - (i) a contravention of any provision of the Listing Rules or waiver or dispensation granted by ASX to the Issuer in accordance with the Listing Rules; or
 - (ii) any breach of the Corporations Act, including without limitation to section 606 of the Corporations Act, or any other applicable laws,the Issuer at its own discretion and expense may, but shall have no obligation to, convene a general meeting of shareholders to seek approval for the issue of Shares.
- (g) If the Issuer elects not to convene such meeting of shareholder or any such meeting, approval is not granted by shareholder of the Issuer, the Issuer shall satisfy the Conversion Option in cash.
- (h) If the Issuer determines to convene a general meeting of the shareholder to seek approval of the issue of the Shares to satisfy the Conversion Option, the Holder must provide reasonable assistance to enable the Issuer to provide all necessary and relevant information to the shareholders in the notice of meeting documentation.
- (i) Subject to this clause 5.1 of these Terms, a Holder will be entitled to exercise the Conversion Option at any time during the period between the Issue Date and the Maturity Date.

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- (j) Subject to clause 5.1(l), a Holder must deliver a Conversion Notice to the Issuer at least 5 Business Days prior to the relevant nominated Conversion Date.
- (k) Subject to clause 5.1(l) of these Terms, on the Conversion Date the Issuer will proceed to issue and allot to the Holder that number of Shares as calculated in accordance with clause 5.2 of these Terms, and will notify the Trustee accordingly.
- (l) Subject clause 5.1(c), 5.1(d), 5.1(e), 5.1(f), 5.1(g) and 5.1(h) of these Terms, if a Holder has received an Early Redemption Notice:
 - (i) the Holder can deliver a Conversion Notice to the Issuer and exercise their Conversion Option at any time during the period commencing on the day of receipt of the Early Redemption Notice by the Holder until the Early Redemption Date; and
 - (ii) within 3 Business Days of receipt of the Conversion Notice referred to in clause 5.1(l)(i) of these Terms, the Issuer will proceed to issue and allot to the Holder that number of Shares as calculated in accordance with clause 5.2 of these Terms, and will notify the Trustee accordingly.
- (m) The issue and allotment of Shares on conversion pursuant to this clause of these Terms will be and be deemed for all purposes to be in full satisfaction and discharge of the principal amount owing to the Holder pursuant to the Notes the subject of the Conversion Notice but the conversion pursuant to this clause of these Terms will in no way affect any liability of the Issuer for unpaid interest accrued up to the date of conversion which the Issuer will pay to the Holder in accordance with clause 3.2 of these Terms.
- (n) The Shares issued and allotted upon the conversion pursuant to this clause will rank equally in all respects with all issued ordinary shares in the capital of the Issuer at the date of conversion.
- (o) The Issuer will make application for official quotation by the ASX of all Shares issued and allotted upon the conversion pursuant to this clause. Such application will be made as soon as reasonably practicable after Shares are so issued and allotted.
- (p) Within 10 Business Days of the issue and allotment of Shares to a Holder upon the conversion pursuant to this clause, the Holder will be issued with a holding statement from the Registry detailing the number of Shares issued.

5.2 Conversion Rate

- (a) Subject to this clause 5 of these Terms, the number of Shares to which a Holder will be entitled on conversion will be determined according to the following formula (**Conversion Rate**):

$$S = \frac{(FV - T)}{CP}$$

Where:

S = the number of Shares to be issued to the Holder;

T = the necessary amount required to be withheld for any Tax pursuant to clause 2.3 of these Terms;

FV = the relevant aggregate Face Value of the Notes to be converted into Shares and issued to the Holder; AND

CP = \$0.40.

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- (b) Where the number of Shares to which a Holder will be entitled, when calculated in accordance with clause 5.2(a), is not a whole number, the number of Shares to which a Holder will be entitled on conversion will be rounded down to the nearest whole number.

5.3 No other rights of conversion

A Note will only be converted to Shares as detailed in this clause 5 of these Terms.

5.4 Shares allotted on conversion

The Shares to be allotted on conversion will be Shares with respect to which no provision is made (whether by the Constitution of the Issuer or other instrument constituting or defining the Constitution or otherwise) for changing or converting them into shares of another class, except for the purpose of enabling, in accordance with any law relating to companies, the consolidation and division of all or any of the share capital of the Issuer or of another company or the subdivision of all or any of the shares in the capital of the Issuer or of another company.

5.5 Participation in new issues

There are no participation rights or entitlements inherent in the Notes and the Holder will not be entitled to participate in new issues of capital offered to shareholders of the Issuer during the currency of the Notes.

5.6 Pro rata issue

If at any time after the issue of a Note and prior to the issue of a Conversion Notice, Redemption Notice or Early Redemption Notice, the Issuer makes a pro rata offer (excluding a bonus issue) to shareholders, the Conversion Rate will be adjusted using the formula as follows:

$$NR = OR + \frac{E[P - (S+D)]}{N+1}$$

Where:

NR = the new Conversion Rate of the Notes under clause 5.2 of these Terms.

OR = the old Conversion Rate of the Note under clause 5.2 of these Terms.

E = the number of Shares into which one Note is convertible.

P = \$0.40.

S = the subscription price of a Share under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue).

N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

5.7 Reconstruction

- (a) If there is a reconstruction (including, consolidation, subdivision, reduction or return) of the issued capital of the Issuer, the basis for conversion of the Notes detailed in these Terms will be reconstructed in the same proportion as the issued capital of the Issuer is reconstructed and in a manner which will not result in any additional benefits being conferred on the Holder which are not conferred on the shareholders of the Issuer, (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of shareholders approving the

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reconstruction of capital) but in all other respects the terms for conversion of the Notes will remain unchanged.

- (b) The adjustments in this clause 5.7 of these Terms will, subject to the Listing Rules, be determined by the Issuer.

5.8 Bonus Share issue

Where the Issuer declares a bonus Share issue, at any time after the issue of a Note and prior to the issue of a Conversion Notice, Redemption Notice or Early Redemption Notice, the basis for conversion of the Notes detailed these Terms will be adjusted by the number of bonus Shares that a Holder would have received if the Note had been exercised prior to the record date for the bonus issue. The Issuer will notify the Trustee and Holders of any such adjustment. No change will be made to the Conversion Rate.

5.9 Non Voting

The Notes do not confer on the Holders any rights to attend or vote at general meetings of shareholders of the Issuer (unless provided for by the Listing Rules or the Corporations Act) but the Issuer will send to Holders copies of all material that the Issuer sends to its ordinary shareholders.

6. Foreign Holders

Where Notes are held by or on behalf of a person resident outside Australia, then, despite any other terms or conditions applicable to such Notes, it will be a condition precedent to the right of the Holder to receive payment of any amount payable under these terms or to obtain Shares on conversion that the requirements of all applicable laws of the Commonwealth of Australia or any of its States or Territories and of the country of residence of the Holder in respect of such payment or conversion are satisfied so that such payment or conversion will not result in a breach of any such applicable law by the Issuer (any such requirements must be satisfied by the Holder at its own cost).

7. Transfers

7.1 Form of transfer

Subject to the terms of the Trust Deed, including without limitation to clause 7 of the Trust Deed, a Holder may transfer all or any of the Notes the Holder holds by a written instrument of transfer in a form that the directors of the Issuer approve, provided it complies with the requirements of the Corporations Act and by providing written notice to the Issuer of at least 5 Business Days prior to the purported transfer.

7.2 Registration of transfers

A transferor of Notes remains the owner of Notes transferred until the transfer is registered and the name of the transferee is entered into the Register in respect of Notes, and the transferee of Notes on being entered on the Register shall have all the rights and obligations which the transferor had and all the rights and obligations of a Holder under this Trust Deed.

7.3 Increased costs

If:

- (a) a Holder transfers any or all Notes that it holds; and
- (b) the Issuer is required to make a payment because of a Regulatory Change after the date of the transfer to the transferee,

then the Issuer is only required to make that payment up to the amount that would have been payable had the transfer not occurred.

EXPLANATORY NOTES

8. Events of Default

8.1 Events of default

Each of these events or circumstances is an Event of Default:

- (a) **(non-payment)**
 - (i) if the Issuer fails to pay any interest that is due and payable by it in accordance with clause 3.1 within 15 Business Days of its due date; and
 - (ii) if the Issuer fails to pay any amount that is due and payable by it under the Trust Deed within 15 Business Days of its due date;
- (b) **(other obligations)** if the Issuer fails to comply with any of its obligations under these Terms or the Trust Deed (other than a failure referred to elsewhere in this clause) and, where the failure can be remedied, is not remedied within 30 Business Days after the Trustee notifies the Issuer of the failure and requires it to be remedied;
- (c) **(Insolvency Event)** if an Insolvency Event occurs in respect of the Issuer;
- (d) **(ASX)** if the Issuer ceases to be listed on the Official List or its shares are suspended from official quotation on the ASX for a period of more than 20 consecutive Business Days (excluding trading halts); and
- (e) **(cross default)** if:
 - (i) any Financial Indebtedness of the Issuer exceeding \$2,000,000 (or its equivalent in any other currency or currencies) is not paid when due nor within any originally applicable grace period;
 - (ii) any Financial Indebtedness of the Issuer exceeding \$2,000,000 (or its equivalent in any other currency or currencies) is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default or review event (however described); or
 - (iii) any creditor of the Issuer becomes entitled to declare any Financial Indebtedness of the Issuer exceeding \$2,000,000 (on a non-aggregated basis except to the same creditor) (or its equivalent in any other currency or currencies) due and payable prior to its specified maturity as a result of an event of default or review event (however described).

8.2 Grace period

No Event of Default under clause 8.1 above will occur if the event or circumstance is capable of remedy and is remedied within 30 Business Days of the Trustee giving notice to the Issuer (unless otherwise specified in these Terms).

For the avoidance of doubt, there is no additional grace period in respect of the Events of Default detailed in clauses 8.1(a) and 8.1(d).

8.3 Consequences of an Event of Default

If an Event of Default is subsisting and subject to the terms of the Priority Deed, the Trustee may, and must if so directed by the Majority Holders (subject to the Trustee's receipt of an indemnity from the Holders and it being the case that the Trustee is not restricted or prohibited from taking such action by any order of any competent court or any applicable law):

EXPLANATORY NOTES

- (i) give notice to the Issuer that the total Redemption Amount of Notes Outstanding is due and payable (and that amount will immediately become due and payable when the notice is served); and/or
- (ii) institute proceedings for the winding-up of the Issuer and/ or prove in the winding-up of the Issuer and/or claim in the Liquidation of the Issuer, for the amount payable under the Terms.

8.4 Notice

The Issuer agrees to promptly notify the Trustee, and in any event no later than 2 Business Days after it becomes aware, of an Event of Default and if the Event of Default is subsisting.



By mail:
 Orbital Corporation Limited
 C/- Link Market Services Limited
 Locked Bag A14
 Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: 1300 554 474 Overseas: +61 1300 554 474


X99999999999

PROXY FORM

I/We being a member(s) of Orbital Corporation Limited and entitled to attend and vote hereby appoint:

STEP 1
APPOINT A PROXY

 the Chairman
 of the Meeting
 (mark box)

 OR if you are NOT appointing the Chairman of the Meeting
 as your proxy, please write the name of the person or
 body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **10:00am on Wednesday, 21 January 2015 at the offices of Orbital Corporation Limited, 4 Whipple Street, Balcatta, Western Australia (the Meeting)** and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

 Please read the voting instructions overleaf before marking any boxes with an
STEP 2
VOTING DIRECTIONS

	For	Against	Abstain*		For	Against	Abstain*
Resolution 1 Approval for the issue of Shares to Vendor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 5 Approval for the issue of Convertible Notes to Mr John Welborn	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Approval for the issue of Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 6 Approval for the issue of Interest Shares to Mr Terry Stinson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Approval for the issue of Interest Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 7 Approval for the issue of Interest Shares to Mr John Welborn	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Approval for the issue of Convertible Notes to Mr Terry Stinson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

i * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3
SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

OEC PRX501A


HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

Default to Chairman of the Meeting

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted as set out in this Proxy Form.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Monday, 19 January 2015**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE > www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



by mail:
Orbital Corporation Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:
+61 2 9287 0309



by hand:
delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138.

If you would like to attend and vote at the General Meeting, please bring this form with you.
This will assist in registering your attendance.